

Message

From: Rashad Sharif [REDACTED]@google.com]
Sent: 4/23/2019 5:51:24 PM
To: Felix Hu [REDACTED]@google.com]
CC: Mike Marchak [REDACTED]@google.com]; Karan Gambhir [REDACTED]@google.com]
Subject: Re: FOP value

+Karan as came up in our 1:1. Most the detail from Spotify side is here.

Keen to see how this all fits together with doc Mike shared on 2020 potential announcements.

On Mon, 22 Apr 2019, 19:43 Rashad Sharif, <[REDACTED]@google.com> wrote:
 Hi both,

The Spotify work from Finance indicated that breakeven for Play in terms of costs is roughly 6% for developer. This included charges to us via various payment methods (CC, DCB, etc.) I believe was some weighted average across those, as well as other costs to the business we incur from developer being on our platform (e.g. tech/admin support from store to users) but excluding costs like the salaries of people in BD etc. more direct costs associated with running the business.

Those % for CC/PayPal look about right from what I've heard too. I'd also heard from developers that DCB is generally around 12-15% (varies from regions and telco). There are comments deep in the model which indicate this ("I've updated the rates here...my inputs are all in orange cells. Note that GB has changed as Vodafone will be moving from 15% to 6%. +Brian Brazinski for visibility into change in GB DCB rate distribution")- so it appears this does vary quite a bit depending on what deals Play has with different telco providers.

For additional details on Spotify Work, I've included some links and some descriptions below including the model... however, the model spreadsheet itself that is pretty all over the place with multiple people contributing to it so unless you've been involved, it probably won't make a lot of sense. What might make more sense is the output of the costs model here.

SPOTIFY DETAILS:

In summary we had two ongoing approaches to this

EXHIBIT 355

1) COSTS:

- We were initially asked to work with finance to come up with some estimates on cost to Google to change rev share for Spotify deal.
- Finance established that 6% is Break-even point for Google.
- We did a bunch of modelling on chum and growth of subscribers over 5 years to figure out how long it would take for X% of Spotify's subscriber based to be on GPB as a result of an agreement for them to use it at a better rev share.

2) BENEFITS

- We felt the costs approach asked for was a pretty negative view of this so wanted to give a more complete picture.
- Using some existing methodology "Affinity" Francesco worked on, we were able to figure out:
 - What % of Spotify users are already spending on Play
 - What % of e.g Pandora Users Spend on Play vs. their quoted Total subscriber base

- Allows us to estimate % of new Buyers we would create if Spotify moved onto GPB and also their estimated spend elsewhere on Play using similar Apps as a proxy

Output of that is here

3) COST & BENEFITS

I tried to align the two approaches in this deck here which is probably the most holistic view of the project. Our conclusions through meeting Mike & Samer were:

- Reassess assumptions of the initial cost model we developed with Finance, in light of some of the buyer % on GPB we saw on the benefits model.
- Use another comparison beyond Pandora with few other devs that have a more international mix to see if that changes things significantly.
- Develop an Exec recommendation on a price point that could be interesting for our top devs.

However, we since learned some information who has recently joined Google from Spotify that indicated it was not worth pursuing this work any further with that particular developer, but maybe we could re-use some of this thinking and methodology with re-thinking rev share/ overall policy enforcement on subs longer term.

On Sun, 21 Apr 2019 at 08:53, Felix Hu <[REDACTED]@google.com> wrote:
@Rashad - it'd be great to see a spotify breakdown if you've still got it.

On my end, I'm currently doing the following for FOP value. I'm breaking it apart into **FOP Fees + additional Incremental FOP value**.

FOP Fees - ideally this is non-controversial with the developer and it's something we'd feel comfortable sharing at an aggregate level.

CC: 3%

Paypal: 3%

DCB: 13%

GC: 9.5%

Incremental FOP Value - Play likely unlocks incremental spend due to having preferred FOPs on file (GC, DCB) that would be hard for the developer to get on their own. I've left this as 0 for now, but we could choose to add incremental value on, at a later date.

On Sat, Apr 20, 2019 at 9:11 AM Mike Marchak <[REDACTED]@google.com> wrote:
Rashad -
In the spotify analysis, I think you got a FOP cost of 6% from finance. Is that right?

I also recall another 11% number thrown around. Did you ever get more info?

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Mike Marchak | Google, Inc

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Metadata

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Custodian	Michael Marchak	SEMANTIC
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Subject	Re: FOP value	SEMANTIC